

would be eligible to reside in the properties.

(b) *Maximum acquisition costs.* The cost of acquiring an eligible property (by a recipient or other entity for transfer to eligible families or by an eligible family from a recipient or directly from an eligible source) may not exceed the as-is fair market value of the property, plus reasonable and customary closing costs charged for comparable transactions in the market area. The as-is fair market value of a property must be determined in accordance with a recent appraisal conducted under procedures consistent with appraisal standards published by The Appraisal Foundation in the current edition of "Uniform Standards of Professional Appraisal Practice."

(c) *Maximum cost of acquisition and rehabilitation.* The cost of acquisition and rehabilitation paid for from grant funds or credited as match may not exceed 80 percent of the maximum amount that may be insured in the area under section 203(b) of the National Housing Act, plus reasonable and customary closing costs charged for comparable transactions in the market area.

(d) *Rehabilitation standards.* (1) The recipient is responsible to assure that rehabilitation of eligible property meets local codes applicable to rehabilitation of work in the jurisdiction (but not less than the housing quality standards established under the Section 8 rental voucher program, described in § 982.401 of this title). Rehabilitation must also include work necessary to meet applicable federal requirements, including lead-based paint requirements set forth at part 35, subparts A, B, J, K, and R of this title.

(2) The property must be rehabilitated to a level that makes it marketable for homeownership in the market area to families with incomes at or below 80 percent of the median for the area. Luxury items (fixtures, equipment, and landscaping of a type or quality that substantially exceeds that customarily used in the locality for properties of the same general type as that being rehabilitated) are not eligible expenses. HUD reserves the right to disapprove improvements or amenities to be paid for from nonprogram funds

that it determines are unsuitable for the HOPE 3 program.

(3) Rehabilitation costs must comply with the cost standards established by HUD (see paragraph (c) of this section for applicable cost limitations covering both acquisition and rehabilitation). If improvements are made to an eligible property beyond those that qualify as eligible costs, the applicant must assure that the entire cost of the excess improvements will be covered by funds other than the HOPE 3 grant and any amounts contributed toward the match, and that the affordability of the property will not be impaired.

(4) Higher standards may be proposed by the applicant or required by lenders.

(5) The applicant must adopt written rehabilitation standards.

(e) *Rehabilitation and transfer of units.*

(1) The unit must be free from any defects that pose a danger to life, health, or safety before transfer of an ownership interest in the unit to the family or occupancy of a unit by an eligible family under a lease-purchase agreement. The recipient must inspect, or ensure inspection of, each unit to determine that it does not pose an imminent threat to the life, health, or safety of residents and that the property has passed recent fire and other applicable safety inspections conducted by appropriate local officials.

(2) The unit must, not later than 2 years after transfer of an ownership interest in the unit to an eligible family, or execution of a lease-purchase agreement for the unit, meet minimum rehabilitation standards under paragraph (d)(1) of this section. The recipient must inspect, or ensure inspection of, each unit to determine that it meets the rehabilitation standards required under paragraph (d)(1) of this section.

[58 FR 36526, July 7, 1993, as amended at 62 FR 34145, June 24, 1997; 64 FR 50226, Sept. 15, 1999]

EFFECTIVE DATE NOTE: At 64 FR 50226, Sept. 15, 1999, § 572.100 was amended by revising paragraph (d)(1), effective Sept. 15, 2000. For the convenience of the user, the superseded text is set forth as follows:

§ 572.100 Acquisition and rehabilitation of eligible properties; rehabilitation standards.

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(d) * * * (1) The recipient is responsible to assure that rehabilitation of eligible property meets local codes applicable to rehabilitation work in the jurisdiction (but not less than the housing quality standards established under the Section 8 Certificate Program, described in 24 CFR 882.109). Rehabilitation must also include work necessary to meet applicable Federal requirements, including applicable lead-based paint testing and abatement requirements, described in § 572.420(h), and accessibility requirements for persons with disabilities, described in § 572.405(b). Rehabilitation may include energy conservation-related repairs and improvements and the repair or replacement of major systems in danger of failure.

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§ 572.105 Financing the purchase of properties by eligible families.

(a) *Types of financing.* (1) Financing may include use of the implementation grant to permit transfer of an ownership interest in a unit to an eligible family for less than fair market value or with assisted financing; or other sources of financing (subject to requirements that apply to those sources), including, but not limited to, conventional mortgage loans, mortgage loans insured under title II of the National Housing Act, and mortgage loans under other available programs, such as Veterans Administration (VA), Farmers Home Administration (FmHA), and Resolution Trust Corporation (RTC) seller-assisted financing.

(2) *FHA single family mortgage insurance requirements.* All regulatory requirements and underwriting procedures established for FHA single family mortgage insurance apply to mortgages insured by FHA on properties assisted under the HOPE 3 program. Exceptions in the regulations specifically for homebuyers under the HOPE 3 program are:

(i) The eligible family/mortgagor may obtain a loan for the down payment from a corporation or another person under conditions satisfactory to HUD (24 CFR 203.19(b) and 234.28(c));

(ii) A second mortgage may be placed against the property even though the entity holding a second mortgage is not a Federal, State, or local government agency, if the entity is designated in the homeownership plan of

an applicant for an implementation grant (24 CFR 203.32(b) and 234.55(b)); and

(iii) Certain restrictions on conveyance may be permissible. Property with restrictions that do not comply with FHA regulations will be ineligible for FHA mortgage insurance, notwithstanding HUD approval under § 572.130(e).

(b) *Financial assistance to homebuyers.* Recipients may provide assistance to, or on behalf of, eligible families to make acquisition and rehabilitation of eligible properties affordable. This may include interest rate reductions ("interest rate buy-downs"), payment of all or a portion of closing costs, down payments, mortgage insurance premiums, and other expenses, and other forms of assistance approved by HUD. No mechanisms to financially assist homebuyers that would require grant recipients to make lump sum deposits of HOPE 3 grant funds will be permitted.

§ 572.110 Identifying and selecting eligible families for homeownership.

(a) *Selection procedures.* (1) Recipients must establish written equitable procedures for identifying and selecting eligible families to participate in the homeownership program, consistent with the affordability standards in § 572.120. Except for Indian tribes and IHAs as described in § 572.405(a)(2), the recipient must have a procedure to carry out its affirmative fair marketing responsibilities, described in § 572.405(e), that apply whenever homeownership opportunities are made available to other than current residents of the property. These procedures must include specific steps to inform potential applicants and solicit applications from eligible families in the housing market area who are least likely to apply for the program without special outreach.

(2) The written selection procedures must provide for selection only of families that are creditworthy and have the financial capacity to handle the anticipated costs of homeownership. Any family determined not to have paid the appropriate amount of tenant contribution under a HUD housing assistance program must be required to resolve

any deficiency before being selected for homeownership.

(b) *Preferences.* (1) In making selections for the program, each recipient must give first preference to qualified residents who legally occupied units on the date the recipient's application for the implementation grant was submitted to HUD and to persons residing in the units at the time the properties are selected. If the unit occupied by a former resident on the date the implementation grant application was submitted to HUD is occupied by a different resident at the time of property selection, a vacant unit under this program must be offered to the former resident at the earliest possible time.

(2) In the case of vacant properties for which the preferences in paragraph (b)(1) of this section do not apply, recipients must give a first preference to otherwise qualified eligible families who reside in public or Indian housing under the 1937 Act. Recipients must use whatever measures are considered appropriate to inform residents of public and Indian housing developments within the housing market area of the preference, such as informing resident councils, PHAs, and IHAs, or other appropriate measures.

(3) Recipients must give a second preference to otherwise qualified eligible families who have completed participation in one of the following economic self-sufficiency programs: Project Self-Sufficiency, Operation Bootstrap, Family Self-Sufficiency, JOBS, and any other Federal, State, territorial, or local program approved by HUD as equivalent.

(c) *Responsibilities of selected families.*

(1) Each eligible family selected for homeownership must certify at the time it acquires an ownership interest in the unit (or enters into a lease-purchase agreement for the unit) that it intends to occupy the unit as its principal residence during the six-year period from the date it acquires ownership interest in the unit, unless the recipient determines that the family is required to move outside the market area due to a change in employment or an emergency situation or the family sells its ownership interest. The family may permit others to rent space (such as a basement area or a spare bedroom)

in the unit occupied by the family as its principal residence. (See §572.115(c) concerning the rental of units in a multi-unit property purchased by a homebuyer under this part.)

(2) Any homebuyer that violates the agreement made under paragraph (c)(1) of this section shall be subject to penalties as provided in the transfer documents, as prescribed by HUD.

(3) Each eligible family selected for the program must participate in counseling and training of homebuyers and homeowners regarding the general rights and responsibilities of homeownership.

(d) *Social security numbers; wage and claims information.* As a condition of eligibility for homeownership under this part, at the time a family applies for homeownership, the recipient (or other appropriate entity) must:

(1) Require the family to meet the requirements for the disclosure and verification of social security numbers, as provided by part 5, subpart B, of this title; and

(2) Require the family to sign and submit consent forms for the obtaining of wage and claim information from State Wage Information Collection Agencies, as provided by part 5, subpart B, of this title.

(e) *Notification of rejected applicant families.* Recipients or another appropriate entity must promptly notify in writing any rejected applicant family of the grounds for any rejection.

[58 FR 36526, July 7, 1993, as amended at 61 FR 11118, Mar. 18, 1996; 61 FR 48797, Sept. 16, 1996]

§572.115 Transfer of homeownership interests.

(a) *Deadline for transfer.* (1) All units in eligible properties (including in rem properties) must be transferred to eligible families within two years of the effective date of the implementation grant agreement, except as otherwise provided for multi-unit properties in paragraph (c) of this section. The transfer must involve either:

(i) Acquisition by an eligible family of an ownership interest in a unit; or

(ii) Execution of a lease-purchase agreement for a unit.

(2) The HUD Field Office may approve a request for an extension of the